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RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV
DE RUEHMD #0525/01 1331058
ZNR UUUUU ZZH
R 121058Z MAY 08
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 4752
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 3417

UNCLAS SECTION 01 OF 02 MADRID 000525

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E.O. 12958: N/A
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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE APRIL 28 -
MAY 9

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Number of Unemployed Jumps in April

11. (U) According to recently released Ministry of Labor statistics, the number of unemployed workers in Spain rose in April by 37,542, bringing the total number to over 2.3 million. What is significant about the April increase is that typically April is a seasonally dynamic month in Spain, and has not been subject to adverse employment data (until now) in over 20 years. In March, there was a slight decrease in unemployment. Following the data release, the Ministry of Labor's Secretary of State for Employment, Maravillas Rojas, admitted that the current situation was unfavorable. Rojas did not back away, however, from the government's projections that unemployment will ultimately average 9.8% in 2008. First quarter data shows that the unemployment rate has already attained 9.6%, one full point higher than the 2007 fourth quarter rate of 8.6%. A significant portion of newly unemployed workers hail from the construction sector. (El Pais, 5/8)

Inflation Falls in April, Still Expected to Remain High

12. (U) The preliminary National Statistics Institute inflation figure for April was 4.2%, four tenths below March's 4.6% and lower than in any of the previous four months. Despite the good news, Second Vice President and Finance Minister Solbes later acknowledged that unless oil prices declined, inflation would be unlikely to fall to 3% by the end of 2008 as the GOS had earlier predicted. (Europa Press, 4/29; El Pais, 5/7)

Solbes Rejects Tax Incentives for Construction Sector

13. (SBU) Second Vice President and Finance Minister Pedro Solbes rejected on May 8 Minister of Housing Beatriz Corredor's proposal to permit homeowners to deduct from their income taxes 20 percent, as opposed to the current 15 percent, of the costs of improvements to their residences. Solbes said the GOS should not try to impede "artificially" the necessary adjustment in the construction sector. The Finance Minister has also said that the adjustment in the sector should be finished by around 2010, at which time

overall Spanish GDP growth should rise again to about 3 percent a year. (Comment: The assumption that the Spanish economy will once again enjoy growth rates of 3 percent or more so soon without deeper structural reform may prove to be overly optimistic. Solbes also has called for social security and labor reforms during the current government.) (El Pais, 5/9; Television Espanola 5/8; Expansion, 5/9)

Big Banks Report Strong 1Q Profit Growth

¶4. (U) Spain's three largest financial institutions reported strong profit growth in the first quarter of 2008. Santander's profit rose 22% from the first quarter of 2007, to 2.2 billion euros. Although results were helped by growth in Santander's Latin American markets, its Spanish business did well also. BBVA's profit rose 15% to 1.4 billion euros. Earlier, the La Caixa savings bank had reported a 13% increase to 625 million euros. (Comment: The positive results have been welcomed by members of the Spanish financial sector as a sign of the sector's health despite the overall economic difficulties. GOS and sector representatives have lamented what they describe as simplistic and overly negative reporting on the sector by the English-language press, especially the Financial Times.) (Press releases - Santander, 4/29; BBVA, 4/28; La Caixa, 4/24)

GOS Delays Taguas Conflict of Interest Report

¶5. (SBU) David Taguas, the outgoing director of the Presidency Economic Office (with rank just below minister and the equivalent of the Chairman of the U.S. Council of Economic Advisors), announced after Zapatero's new cabinet was named that he would leave government to work for the Seopan construction industry lobby. This has raised conflict of interest issues, because Taguas participated in meetings involving government contracts with Seopan member companies.

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A GOS Office of Conflict of Interests has delayed its ruling on whether Taguas, planned departure for Seopan is consistent with the Law on the Conflict of Interests. Should the Office rule that Taguas is in violation of the law, he would be barred from taking another government job for a period between five to ten years, and he would not be eligible to receive a pension from the government. (Comment: From a strictly financial perspective, Taguas might want to take the Seopan job no matter what the Office of Conflict of Interests says. He would reportedly earn one million euros a year, while the government pension only runs for 18 months and is much lower than the Seopan salary. On the other hand, one wonders whether Seopan might now consider Taguas to be damaged goods, as President Zapatero's indication that he disapproves of Taguas, planned move may affect Taguas' access to GOS officials) (El Pais 5/9)

Iberdrola Renewables Orders 200 Windmills from GE for 430 Million Euros

¶6. (U) The windmills, which will have a total production capacity of around 300 megawatts, will be delivered to Iberdrola Renewables in 2010 and will be used to support some of the company's planned investment in the U.S. Iberdrola Renewables selected General Electric despite its parent company's ownership of a 24% stake in competing Spanish windmill manufacturer Gamesa. (Expansion, 5/9)
Llorens